

Corp reports

AR44

Cygnus

CORPORATION LIMITED

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A N N U A L

R E P O R T

DIRECTORS

OAKAH L JONES

*Chairman of the Board
The Consumers' Gas Company*

ANTHONY G. S. GRIFFIN

*President and Director
Triarch Corporation Ltd.*

BENTON MACKID

*Vice-President and Director
Reed Shaw Osler Limited*

R. STEPHEN PADDON

*Partner
Zimmerman & Winters, Solicitors*

JOHN B. SANGSTER

*President and Director
Sangster Holding Limited*

ARTHUR M. SHOULTS

*Chairman of the Board
Baker, Lovick, BBDO Limited*

NOAH TORNO, M.B.E.

*President and Director
Gramercy Holdings Limited*

OFFICERS

OAKAH L JONES *Chairman of the Board and
Managing Director*

W. T. WILKINSON *Vice-President and
General Manager*

R. B. COLEMAN *Secretary*

B. B. ROMBOUGH *Treasurer*

F. G. MITCHELL *Assistant Secretary*

P. M. MacLEAN *Assistant Treasurer*

AUDITORS

Riddell, Stead & Co.

SOLICITORS

Macleod Dixon

REGISTRAR AND TRANSFER AGENT

Crown Trust Company

LISTINGS

Class A and Class B Shares

*Montreal Stock Exchange — Toronto Stock Exchange
Calgary Stock Exchange — Vancouver Stock Exchange*

ANNUAL GENERAL MEETING

*The annual general meeting of shareholders will be held
at 10:30 a.m. May 4, 1972 at the head office of the Com-
pany, Calgary, Alberta.*

As of March 20, 1972

TO THE SHAREHOLDERS

Financial

Gross income for the year increased by \$139,956 or 9.3% to \$1,652,226 from the \$1,512,270 in 1970. During the same period expenses decreased by \$104,977 to \$1,178,692 from the previous year's \$1,283,669. Net earnings, before extraordinary items, increased by \$229,980 to \$450,845. An extraordinary item of \$84,885, representing the Company's share of the gain realized by Home Oil Company Limited on the sale of certain investments in 1971, resulted in net earnings amounting to \$535,730 for 1971, an increase of \$286,977 or 115% over the \$248,753 obtained in 1970.

The improvement in gross income is mainly attributable to the increased earnings reported by Home for 1971 and, to a lesser extent, the change made in the basis of determining the management fee from Natural Resources Growth Fund. Empire Management Limited now obtains its management fee based on the portfolio value of the Fund and in turn absorbs all the administrative expenses of the Fund. This change accounts mainly for the increase in the general and administrative expenses. Petrochemical sales declined slightly in 1971 as the demand for carbon disulphide was lower. Interest expense during 1971 was considerably less than that for 1970 due to a combination of lower interest rates and the reduction in bank indebtedness.

The above mentioned financial results, as well as the accompanying statements, are based on the equity method of accounting which, as previously advised, was introduced in 1971. Under the revised accounting policies, the Company's share of the earnings or losses of Home and Community Antenna Television Ltd. is recorded in the Company's own accounts. These earnings, less cash dividends received, are added to the investment each year. The carrying value of the investment in Home was restated on the basis of our equity interest in the

underlying book values of Home's net assets. The credits to Retained Earnings and Contributed Surplus arising from this retroactive adjustment are shown in the accompanying financial statements. In addition, the Company has consolidated its accounts with those of its two wholly-owned subsidiaries for financial statement purposes.

Investments

Home Oil Company Limited

Our shareholdings in this company remained unchanged at 1,000,000 Class B (voting) shares. The market value of this investment at year-end increased to \$32,750,000.

Home's gross revenue at \$34,252,000 was up 14.1% from a previous high in 1970 of \$30,008,000. Net earnings before extraordinary items increased to \$5,237,000 from \$4,057,000 in 1970 while net earnings after extraordinary items, amounting to \$838,000 from the sale of investments, increased by 11.5% to \$6,075,000. These earnings represent \$0.73 per share before extraordinary items and \$0.85 after, as compared to \$0.58 and \$0.78 respectively for the previous year. Net cash flow in 1971 at \$15,964,000 or \$2.24 per share was \$1,959,000 or \$0.25 per share over 1970.

Home conducted an active exploration program during the year and participated, with varying interests, in a total of 59 exploratory wells which resulted in 12 gas and 3 oil discoveries as well as in 19 development wells resulting in 3 gas and 11 oil successes. This exploration activity was carried out in Alberta, British Columbia, U.S.A., England, Italy, and the North Sea. In Northeastern British Columbia a promising gas discovery was made in the Cache Creek Area and follow up drilling will be conducted in 1972. It also is currently carrying out an extensive test program of its significant land holdings in the Athabasca Tar Sands. Home has an interest in, and is operator for, a consortium which obtained one of the

first offshore Production licences issued by the Government of Malta. An exploratory well is currently drilling on this acreage. Home also has an interest with, and is operator for, a group of companies recently awarded two U.K. North Sea exploration blocks, both of which are considered highly prospective.

At year-end Home's land interests amounted to 10,293,874 gross acres, or 4,566,410 net acres including holdings in Alberta, British Columbia, Saskatchewan, Hudson Bay, Ontario, Yukon, Northwest Territories, Ellef Ringnes Island in the Arctic, U.S.A. including Alaska, U.K. including the North Sea, Italy and Malta.

Home's production also achieved record levels during 1971. Crude oil and natural gas liquids production increased 11.3% to 21,135 barrels per day while natural gas sales amounted to 92.9 million cubic feet per day as compared to 89.2 million in 1970. Throughput of company operated pipelines increased by 11.9% to 250,555 barrels per day.

The outlook for the Canadian gas and oil industry is excellent. There would appear to be a limitless demand for both crude oil and natural gas. It is expected that the U.S. crude oil import restrictions will be relaxed and indications are that the wellhead price may be increased.

Atlantic Richfield Company

There was no change in our holdings of 50,000 common shares in this large American integrated oil company. This investment continues to be adversely affected by the delays in granting a permit for the construction of a pipeline from the North Slope of Alaska.

Community Antenna Television Limited

This Company, in which Cygnus holds a 27.9% interest, began active operations during 1971 and its first customers received their cablevision service in September. The various areas of construction are progressing favorably although, due to the

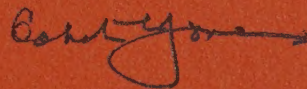
high capital outlays during the development stage, the company experienced an operating loss during 1971. However, customer acceptance has been excellent and the number of new connections is in line with our expectations. The Company has applied to the Canadian Radio Television Commission for approval to increase its holdings in Community to 37.5% through the exercise of options held on a further 20,000 shares.

It is with great sorrow and the deepest regret that it is necessary to report the death of Robert Arthur Brown, Jr., on January 4, 1972. His passing ended several decades of unbroken association with Cygnus and its predecessor companies.

Mr. Brown was instrumental in organizing Cygnus Corporation Limited in March of 1964 and was President and Chief Executive Officer from its formation until his death. As one of Calgary's most famous native sons his contribution to his city, his country and to the Company will long be remembered. His outstanding ability, together with his loyal friendship, will be greatly missed by his fellow Directors.

Since the last Annual Report, The Consumers' Gas Company has purchased 52.5% of the outstanding Class B (voting) shares of Cygnus.

Submitted on behalf of the Board



Chairman and Managing Director

Calgary, Alberta
March 20, 1972.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u> (Note 1)
FUNDS WERE OBTAINED FROM		
Operations		
Net earnings	\$ 535,730	\$ 248,753
Non-cash items — net	(105,635)	73,021
	430,095	321,774
Issuance of Class B shares	—	262,800
Exchange gain on conversion of U.S. bank loan (Note 3)	349,313	—
Reduction in other assets (Note 4)	202,393	—
Repayment of advances Community Antenna Television Ltd.	18,750	(18,750)
	<u>\$1,000,551</u>	<u>\$ 565,824</u>
FUNDS WERE USED FOR		
Plant and equipment	\$ 55,882	\$ 223,739
Other assets (Note 4)	—	262,031
Dividends		
Class A shares	137,029	137,029
Debt retirement	399,938	—
	592,849	622,799
INCREASE (DECREASE) IN WORKING CAPITAL ..	407,702	(56,975)
	<u>\$1,000,551</u>	<u>\$ 565,824</u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u> (Note 1)
INCOME		
Share of earnings (loss)		
— Home Oil Company Limited	\$ 686,791	\$ 541,199
— Community Antenna Television Ltd.	(21,300)	—
Petrochemical sales	702,877	759,943
Mutual fund management fees and sales commissions	194,267	120,736
Dividend and interest income	89,591	90,392
	<u>1,652,226</u>	<u>1,512,270</u>
EXPENSES		
Cost of petrochemical sales (including depreciation 1971 - \$144,618; 1970 - \$141,763)	537,932	541,664
General and administrative expense	235,375	177,591
Interest expense	405,385	564,414
	<u>1,178,692</u>	<u>1,283,669</u>
Net earnings before undernoted items	473,534	228,601
PROVISION FOR INCOME TAX (Note 5)	22,689	7,736
Net earnings before extraordinary item	450,845	220,865
EXTRAORDINARY ITEM		
Share of gain on sale of investments by Home Oil Company Limited	84,885	27,888
NET EARNINGS	<u>\$ 535,730</u>	<u>\$ 248,753</u>
EARNINGS PER COMMON SHARE		
(calculated according to dividend priorities attaching to each class of shares, and on the basis of the average number of shares outstanding)		
Before extraordinary item		
Class A shares	\$ 0.11	\$ 0.10
Class B shares	0.11	0.03
After extraordinary item		
Class A shares	\$ 0.13	\$ 0.10
Class B shares	0.13	0.04



CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS

	1971	1970 (Note 1)
Cash	\$ 75,670	\$ 131,249
Accounts receivable	228,128	272,033
Dividends receivable	250,000	250,000
Other	60,247	32,873

614,045 686,155

INVESTMENTS (Note 2)

Home Oil Company Limited	24,351,571	23,548,100
Atlantic Richfield Company	5,289,871	5,639,184
Natural Resources Growth Fund Ltd.	273,991	273,991
Community Antenna Television Ltd.	58,700	98,750

29,974,133 29,560,025

FIXED ASSETS, at cost


Plant and equipment	2,332,760	2,277,199
Accumulated depreciation	814,409	669,989

1,518,351 1,607,210

OTHER ASSETS (Note 4)

69,522 271,915

Approved on behalf of the Board:

 Director

 Director

32,176,051 32,125,305

AS AT DECEMBER 31, 1971

LIABILITIES

CURRENT LIABILITIES

	<u>1971</u>	<u>1970</u> (Note 1)
Bank indebtedness, secured by investments	\$ 115,000	\$ 589,000
Accounts payable	78,678	84,243
Income taxes (Note 5)	7,589	7,736
	<u>201,267</u>	<u>681,079</u>

LONG TERM DEBT (Note 3)

Bank indebtedness, secured	<u>5,400,000</u>	<u>5,799,938</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)

Authorized

375,000 Preferred shares, par value \$20 each, issuable in series
 4,000,000 Class A shares of no par value
 4,000,000 Class B shares of no par value

Issued

1,370,289 Class A shares	5,740,352	5,740,352
2,697,374 Class B shares	<u>10,132,365</u>	<u>10,132,365</u>
	<u>15,872,717</u>	<u>15,872,717</u>

SURPLUS

Contributed surplus (Note 4)	5,507,842	4,975,847
Capital surplus (Note 4)	92,500	92,500
Retained earnings	5,101,925	4,703,224
	<u>10,702,067</u>	<u>9,771,571</u>
	<u>\$32,176,051</u>	<u>\$32,125,305</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1971

	<u>1971</u>	<u>1970</u> (Note 1)
BALANCE AT BEGINNING OF YEAR		
As previously reported	\$1,010,030	\$ 967,393
Adjustments resulting from retroactive change in accounting for investments in other companies (Note 1)	<u>3,693,194</u>	<u>3,624,107</u>
As adjusted	4,703,224	4,591,500
Net earnings	<u>535,730</u>	<u>248,753</u>
	5,238,954	4,840,253
Dividends declared		
Class A shares	<u>137,029</u>	<u>137,029</u>
BALANCE AT END OF YEAR	<u>\$5,101,925</u>	<u>\$4,703,224</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1971

1. ACCOUNTING POLICIES

(i) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited.

The Company follows the equity method of accounting for its investments (see Note 2) in Home Oil Company Limited and Community Antenna Television Ltd. in which the Company has equity interests of 13.6% and 27.9% respectively. Under the equity method, the Company's investments in such companies are carried on the balance sheet at cost plus its share of net increases in shareholders' equity accounts.

(ii) Change in Accounting Policies

Prior to 1971, the accounts of the Company's wholly-owned subsidiaries were not consolidated with those of the Company but were carried in the accounts of the Company on the equity method of accounting, and the Company's investments in Home Oil Company Limited and Community Antenna Television Ltd. were carried in the accounts of the Company at cost. During 1971, the Company adopted, with retroactive effect, the accounting policies outlined in the preceding paragraph. This change in accounting had the effect of increasing net earnings for 1971 by \$250,376 (\$0.01 per Class A share, and \$0.06 per Class B share). Earnings for 1970, previously reported as \$179,666, have been restated on the new basis.

2. INVESTMENTS

Details of investments are as follows:

	Number of Shares	Cost* or Equity Basis (Note 1(i))	Quoted Market Value December 31, 1971
Home Oil Company Limited			
Class B shares	1,000,000	\$24,351,571	\$32,750,000
Atlantic Richfield Company			
Common shares	50,000	5,289,871*	3,607,875
Natural Resources Growth Fund Ltd.			
Common shares	1,000	91,491*	—
Management contract		182,500*	—
Community Antenna Television Ltd.			
Shares	40,000	58,700	—
		<u>\$29,974,133</u>	

3. LONG TERM DEBT

Bank indebtedness shown under long term debt is repayable on demand with interest at 6 $\frac{1}{2}$ % per annum and is secured by the Company's investments in Atlantic Richfield Company and Home Oil Company Limited. The loan, which was initially repayable in U.S. dollars, was incurred in 1968 to purchase common shares of Atlantic Richfield Company. The gain on conversion, in 1971, to a Canadian dollar loan has been credited to the carrying value of that investment.

4. CAPITAL STOCK

(a) Contributed Surplus

Contributed surplus arises from the adoption by the Company of the equity method of accounting for its investment in Home Oil Company Limited. The balance of contributed surplus as at December 31, 1971 represents the Company's share of increases, other than through earnings, in the shareholders' equity accounts of Home Oil Company Limited.

(b) Capital Surplus

Capital surplus arose in prior years on purchase and cancellation of preferred shares.

(c) Dividends — Class A (non-voting) and Class B (voting) Shares

The holders of Class A shares are entitled to cumulative dividends of 10 cents per share per annum payable on July 1. After payment of these dividends, the Company may pay dividends up to 10 cents per share per annum to the Class B shareholders. Dividends in excess of the foregoing, in any year, are payable equally on Class A and Class B shares.

(d) Share Options

At December 31, 1971, 59,000 Class B shares are reserved for issuance to employees of the Company and its subsidiary and affiliated companies under the terms of an Incentive Share Option Plan, under which options are outstanding to purchase 6,000 shares at \$3.60 per share exercisable up to December 22, 1976.

Share subscription notes outstanding at December 31, 1971 amounted to \$63,225. These notes, which were received in 1970 on the exercise of share options, are included on the balance sheet under other assets, are secured by the purchased shares and are non-interest bearing. The notes are payable at the earlier of (i) the date of termination of employment of the optionee under certain circumstances, (ii) the date of sale of the shares acquired by the optionee or (iii) ten years from the subscription date.

5. INCOME TAXES

The Company has paid no income taxes since the majority of its revenue consists of non-taxable items. Taxes payable are those of a subsidiary company.

6. COMMITMENT AND CONTINGENT LIABILITIES

- (a) The Company has guaranteed certain indebtedness of Community Antenna Television Ltd. of \$1,150,000, and may be obligated to guarantee or otherwise provide a further \$1,037,500 in respect of estimated additional funds required by that company.
- (b) Thio-Pet Chemicals Ltd., a wholly-owned subsidiary, has been awarded Government of Canada grants totalling \$257,000 towards the cost of an experimental plant unit constructed in 1970. The subsidiary company is contingently liable for the repayment of \$190,000 of such grants plus accrued interest should the plant unit prove economical.

7. EXECUTIVE REMUNERATION

During 1971 the Company paid \$8,600 in directors' fees to its twelve directors, and no remuneration to its six officers as such. Three of the officers were also directors. The subsidiaries paid no remuneration to the Company's officers and directors.

AUDITORS' REPORT

TO THE SHAREHOLDERS
CYGNUS CORPORATION LIMITED

We have examined the consolidated balance sheet of Cygnus Corporation Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for investments as explained in Note 1 to the consolidated financial statements.

Calgary, Alberta

RIDDELL, STEAD & CO.

February 23, 1972. *Chartered Accountants*

AR44

Cygnus

CORPORATION

LIMITED

INTERIM REPORT
to the
SHAREHOLDERS

FOR THE FIRST HALF
OF 1972

304 - SIXTH AVENUE S.W.
CALGARY, ALBERTA
T2P 0R4

AUGUST 17, 1972

CYGNUS CORPORATION LIMITED

AND SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS:

Income for the first six months of 1972 amounted to \$786,306, down from the \$809,314 recorded during the corresponding period of 1971. Net earnings, including an extraordinary gain of \$300,372, amounted to \$450,941 as compared with \$245,872 reported for the same period last year. The extraordinary gain of \$300,372 arose from the sale by Home Oil Company Limited of 200,000 shares of TransCanada PipeLines Ltd. early in 1972. Net income before extraordinary items amounted to \$150,569 during this period, down from the \$245,872 reported last year.

The Company includes its equity share of the earnings of Home Oil in its accounts because of its substantial investment in Home Oil in the form of 1,000,000 Class B (voting) shares. As a result of the use of the equity method of accounting the Company's income account reflects its share of Home's earnings during the first half of 1972. Home's net income, before extraordinary items, amounted to \$2,644,000, up \$214,000 or 9% over the same period in 1971.

Unfortunately the improvement in Home's earnings were more than offset by the unfavourable results from the operations of Thio-Pet Chemicals Ltd., one of the company's wholly-owned subsidiaries. The earnings of Empire Management Limited, your Company's other wholly-owned subsidiary, were somewhat lower than last year but quite satisfactory in relation to the Mutual Fund industry generally. Community Antenna Television Limited, in which your Company has a 27.9% interest, has recorded a small loss so far this year but considering it is in its first year of operations, the results are encouraging.

The outlook for the oil and gas industry continues to be encouraging and in view of expected improvements in the sales of the chemical company we are optimistic about our operations for the balance of the year.



OAKAH L JONES

Chairman and Managing Director

Calgary, Alberta
August 17th, 1972

STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED JUNE 30, 1972

	1972	1971
INCOME		
Share of Earnings (loss)		
— Home Oil Company Limited	\$ 323,007	\$ 317,429
— Community Antenna Television Ltd.	(12,118)	—
Petrochemical Sales	323,136	360,378
Mutual Fund Management Fees and Commissions	108,557	86,788
Dividend Income	42,072	43,173
Interest Income	1,652	1,546
	<u>786,306</u>	<u>809,314</u>
EXPENSE		
Cost of Petrochemical Sales (Includes Depreciation — '71 — \$70,953, '72 — \$85,492)	315,275	229,414
General and Administrative Expense	123,217	119,403
Interest Expense		
— Long Term	174,430	199,151
— Short Term	106	10,184
	<u>613,028</u>	<u>558,152</u>
NET EARNINGS BEFORE UNDERNOTED ITEMS	173,278	251,162
Provision for Income Tax	22,709	5,290
NET EARNINGS BEFORE EXTRAORDINARY ITEM	150,569	245,872
EXTRAORDINARY ITEM		
Share of Gain on Sale of Investments by Home Oil Company Limited	300,372	—
NET EARNINGS	<u>\$ 450,941</u>	<u>\$ 245,872</u>
EARNINGS PER COMMON SHARE		
(Calculated according to dividend priorities attaching to each class of shares.)		
Before Extraordinary Item		
Class A	\$ 0.10	\$ 0.10
Class B	\$ 0.01	\$ 0.04
After Extraordinary Item		
Class A	\$ 0.11	\$ 0.10
Class B	\$ 0.11	\$ 0.04
STATEMENT OF SOURCE AND USE OF FUNDS		
FUNDS WERE OBTAINED FROM		
Net Earnings	\$ 450,941	\$ 245,872
Non-Cash Items — Net	(275,637)	3,193
Exchange Gain on conversion of U.S. Bank Loan	—	349,313
Reduction in Other Assets	—	180,912
Repayment of Advances		
Community Antenna Television Ltd.	—	18,750
	<u>\$ 175,304</u>	<u>\$ 798,040</u>
FUNDS WERE USED FOR		
Plant and Equipment	\$ 26,098	\$ 11,446
Other Assets	13,426	—
Dividends — Class A Shares	137,029	137,029
Debt Retirement	154,344	399,938
	<u>330,897</u>	<u>548,413</u>
Increase (Decrease) in Working Capital	(155,593)	249,627
	<u>\$ 175,304</u>	<u>\$ 798,040</u>

AR44



INTERIM REPORT
to the
SHAREHOLDERS

FOR THE FIRST HALF
OF 1975

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

AUGUST 15, 1975

CYGNUS CORPORATION LIMITED

CONSOLIDATED STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED JUNE 30, 1975

INCOME	1975	1974 (Note A)
Share of Earnings		
Home Oil Company Limited	\$1,441,067	\$1,296,822
Community Antenna Television Ltd.	101,862	73,289
Petrochemical Sales	412,887	348,920
Dividend and Interest Income - Net.	28,670	16,609
Other Income	2,249	2,235
	<u>1,986,735</u>	<u>1,737,875</u>
EXPENSE		
Cost of Petrochemical Sales (Includes Depreciation --- 1975 - \$114,807; 1974 - \$106,200)	383,863	325,292
General and Administrative Expense	50,714	60,597
Interest Expense	29	399
	<u>434,606</u>	<u>386,288</u>
NET EARNINGS BEFORE EXTRAORDINARY ITEMS	1,552,129	1,351,587
EXTRAORDINARY ITEMS		
Share of losses incurred by Home Oil Company Limited	(492,514)	(461,829)
NET EARNINGS	<u>\$1,059,615</u>	<u>\$ 889,758</u>
EARNINGS PER SHARE (based on average number of shares outstanding)		
Before Extraordinary Items	\$.35	\$.30
After Extraordinary Items	\$.23	\$.19
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION		
FUNDS WERE OBTAINED FROM		
Net Earnings	\$1,059,615	\$ 889,758
Non-Cash Items — net	(560,608)	(552,082)
	<u>\$ 499,007</u>	<u>\$ 337,676</u>
FUNDS WERE USED FOR		
Plant and Equipment	\$ 29,144	\$ 9,355
Other Assets	2,683	317
Dividends		
Preferred Shares	135,000	135,000
Class A Shares	137,029	137,029
	<u>303,856</u>	<u>281,701</u>
Increase in Working Capital	195,151	55,975
	<u>\$ 499,007</u>	<u>\$ 337,676</u>

NOTE A

Results for 1974 have been restated to reflect all retroactive provisions of the November 18, 1974 Federal Budget and the December 12, 1974 Alberta Petroleum Exploration Plan.

AR44



INTERIM REPORT
to the
SHAREHOLDERS

FOR THE FIRST HALF
OF 1971

304 - SIXTH AVE. S.W.
CALGARY 1, ALBERTA

AUGUST 16, 1971

CYGNUS CORPORATION LIMITED

STATEMENT OF EARNINGS (Note)

FOR THE SIX MONTHS ENDED JUNE 30, 1971

INCOME	1971	1970
Share of earnings		
— Home Oil Company Limited	\$ 317,429	\$ 153,962
— Thio-Pet Chemicals Ltd.	21,854	(28,780)
— Empire Management Limited	18,434	15,796
Dividends	43,093	44,964
Interest	91,582	89,936
	<u>492,392</u>	<u>275,878</u>
 EXPENSE		
General and Administrative	37,187	35,283
Interest	209,334	293,791
	<u>246,521</u>	<u>329,074</u>
NET EARNINGS (LOSS) before extraordinary item	245,871	(53,196)
 EXTRAORDINARY ITEM		
Share of loss on sale of investments by Home Oil Company Limited	—	(209,803)
NET EARNINGS (LOSS)	<u>\$ 245,871</u>	<u>\$(262,999)</u>
 EARNINGS PER COMMON SHARE		
(Calculated according to dividend priorities attaching to each class of shares.)		
Before Extraordinary Item		
Class A	<u>\$ 0.10</u>	<u>\$ (0.01)</u>
Class B	<u>\$ 0.04</u>	<u>\$ (0.01)</u>
After Extraordinary Item		
Class A	<u>\$ 0.10</u>	<u>\$ (0.06)</u>
Class B	<u>\$ 0.04</u>	<u>\$ (0.06)</u>

Subject to Year

STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE SIX MONTHS ENDED JUNE 30, 1971

FUNDS WERE OBTAINED FROM	1971	1970
Net earnings (loss) before extraordinary item	\$ 245,871	\$ (53,196)
Deduct share of earnings of subsidiary and affiliated companies	(357,717)	(140,978)
	(111,846)	(194,174)
Dividends From Home Oil Company Limited	250,000	250,000
Repayment of advances by subsidiary and affiliated companies	70,250	33,500
Exchange gain applied against investment in Atlantic Richfield Company	349,313	—
Share subscription notes repaid	180,000	—
Issuance of Class B shares	—	252,000
	<u>\$ 737,717</u>	<u>\$ 341,326</u>
FUNDS WERE USED FOR		
Debt retirement	\$ 399,938	\$ —
Advances to subsidiary companies	—	72,000
Dividends — Class A shares	137,029	137,029
	536,967	209,029
Increase in working capital	200,750	132,297
	<u>\$ 737,717</u>	<u>\$ 341,326</u>

NOTE:

Effective January 1, 1971 the equity method of accounting for long term investments was instituted with the 1970 earnings re-stated to reflect this change. Under the "cost" method of accounting, net earnings for the 6 months ending June 30, 1971 would have been \$178,442 in comparison with \$42,842 for the comparable period in 1970.

CYGNUS CORPORATION LIMITED

TO THE SHAREHOLDERS :

Shareholders undoubtedly are aware that since the issuing of our 1970 Annual Report, The Consumers' Gas Company has acquired a substantial interest in your Company. This investment by Consumers' will add strength to our overall operation without any change in management policy. Mr. Oakah L. Jones, Chairman of the Board of Consumers' Gas was elected to and appointed Chairman of the Board. In May, 1971, Mr. R. W. Campbell and Mr. J. D. Gibson resigned as Directors and Mr. A. G. S. Griffin of Toronto and Mr. J. B. Sangster of Regina were appointed to the Board to fill these vacancies.

The Company has adopted the equity method of accounting for long term investments effective January 1, 1971. Therefore, it will no longer take the dividends received from Home Oil into its income but instead will record as earnings its percentage share, currently 14.1%, of the net income of Home Oil for the respective periods. Accordingly, the financial statements for the six months ended June 30, 1971 have been prepared on the equity method of accounting and the results for the corresponding period in 1970 have been restated to reflect this change.

Income for the first six months of 1971 amounted to \$492,392, up 78% from the \$275,878 recorded during the comparable period in 1970. Net earnings before extraordinary items amounted to \$245,871 in 1971 as against a loss of \$53,196 for the corresponding period in 1970. This improvement in earnings over the 1970 results is accounted for by a reduction in interest expense and an increase in net earnings realized by Home Oil. The extraordinary loss of \$209,803 in the first half of 1970 arose through the sale by Home Oil of 300,000 shares of Calgary Power Ltd.

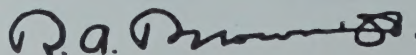
Empire Management Limited, which operates Natural Resources Growth Fund Ltd., had net earnings of \$18,434 as compared to \$15,796 in 1970. The net earnings of Thio-Pet Chemicals Ltd. amounted to \$21,854 as against a loss of \$28,780 during the same period last year. As a result, these two subsidiaries had a combined profit of \$40,288 in the first six months of 1971 as against a loss of \$12,984 in 1970.

The market value of your Company's major holding of 1,000,000 Class B voting shares of Home Oil Company Limited amounted to \$31,500,000 at June 30, 1971 as compared with \$27,000,000 as at December 31, 1970. There was a very marked improvement in Home's operating results for the period under review as compared to last year's and, as a result, net earnings before extraordinary items of \$2,430,000 increased by \$1,184,000 or 95% as compared to 1970. The market value of our holdings of 50,000 shares of Atlantic Richfield Company also appreciated from \$3,315,000 at December 31, 1970 to \$3,731,250 at June 30, 1971.

The operations of Community Antenna Television Limited, in which your Company has a 27.9% interest, are progressing according to schedule and it is now anticipated that the first subscribers will be receiving service in September. Customer acceptance of this service is proving most favourable to date.

Your Company has been studying the new Federal Budget and the 1971 Tax Reform Bill to evaluate its overall effect on our operations. The abandonment of certain of the White Paper proposals, such as dividend integration and periodic revaluation for unrealized capital gains, was a welcome modification of government tax policy. Further study of the proposed Tax Reform Bill will be necessary in order to determine the full effect on our operations.

On behalf of the Board of Directors,



Calgary, Alberta
August 16, 1971

R. A. BROWN, Jr.
President